

**Provincial Economic Update  
November 2008**

**Highlights**

The Prince Edward Economy in 2008 has so far been relatively resilient. The number of people employed on the Island is up 1.4 per cent, while unemployment remains near a historical low at 10.6 per cent. Retail sales are up 5.4 per cent on a seasonally adjusted basis and total labour incomes have improved by 4 per cent. Total building permits are up 40.8 per cent. Higher potato prices have improved the outlook for farm cash receipts. The Island population increased 1.23 per cent to rest at 139,818 as of July 1, 2008, this was the fastest rate of growth east of Saskatchewan. Shipments of machinery and equipment have increased 40.8 per cent, helping to compensate for overall weakness in manufacturing shipments which were flat on a seasonally adjusted basis. Provincial Treasury estimates economic growth for 2008 to slow to 1.5 per cent compared to 2.4 per cent in 2007.

**The International Economy**

The international economy has been extremely volatile through the end of the third quarter and entering the fourth quarter. The deepening and protraction of the credit crisis, and subsequent collapse in equity markets in the United States, has spread to other countries. The current economic situation remains uncertain, and subject to considerable downside risk. Growth in the world economy, as forecast by the Bank of Canada, should moderate to 3.7 per cent in 2008, and 2.8 per cent in 2009. Growth will slow in all developed economies, with many likely entering a recession including, the United States, Great Britain and the Euro-zone. Emerging economies will still experience strong growth, but will not be spared entirely. China and other emerging economies are expected to grow at 8.1 per cent in 2008 and 7.3 per cent in 2009, down from the growth of over 10 per cent witnessed in years past.

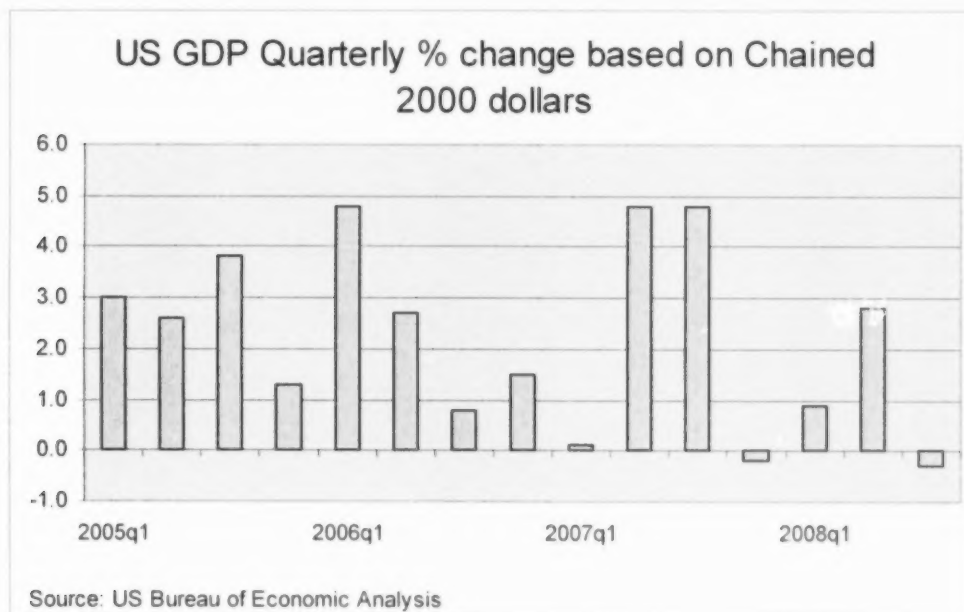
As a result of the crisis in equity markets whose casualties included the whole of America's independent investment banking institutions, mortgage giants Fannie Mae and Freddie Mac, and insurance dealer American International Group (AIG), national governments and central banking authorities around the world have resorted to directly injecting capital into their financial markets to increase liquidity and shore-up the weak balance sheets of ailing banks and other financial institutions. Several smaller and emerging economies, including Iceland, Hungary, Estonia and Pakistan have turned to the International Monetary Fund (IMF) for financial aid to prevent a collapse in their financial and credit markets.

In unprecedented action, the central banks of several developed economies, including Canada, the US, Britain and the Euro-zone coordinated cuts to their key lending rates in

October. Many countries have also made changes to their deposit insurance schemes, insuring 100 per cent of deposits up to a certain amount, in order to prevent runs on already shaky financial institutions. National leaders and finance ministers from around the world have met to discuss the events taking place and the best manners to resolve them, and all have deemed coordinate action as the best path forward out of the present crisis. On November 15, 2008, G20 leaders and finance ministers will meet in Washington to discuss the progress that has been made in understanding the cause and actions taken to resolve the financial crisis.

### The American Economy

As a result of the troubled financial sector, the U.S. economy contracted at an annual rate of 0.3 per cent in the third quarter. This compares with the 0.9 per cent growth in the first quarter, and the 2.8 per cent growth in the second. The third quarter contraction in GDP was principally the result of a decrease in personal consumption expenditures (PCE). PCE, which generally account for two thirds of the American economy, have been flat through the first two quarters of 2008, before declining by 3.1 per cent in the third quarter. A smaller than expected decrease in imports, and an export slowdown, also contributed to the decrease.



The U.S. employment situation has deteriorated in the first ten months of 2008. The unemployment rate has been rising since the beginning of the year, from a low of 4.8 per cent in February to 6.5 per cent in October. In the first ten months of the year employment has fallen by over 1.2 million, with over half of the decrease coming in the last three months. Job losses over the first ten months of 2008 have occurred in manufacturing, professional and business services, wholesale and retail trade, and

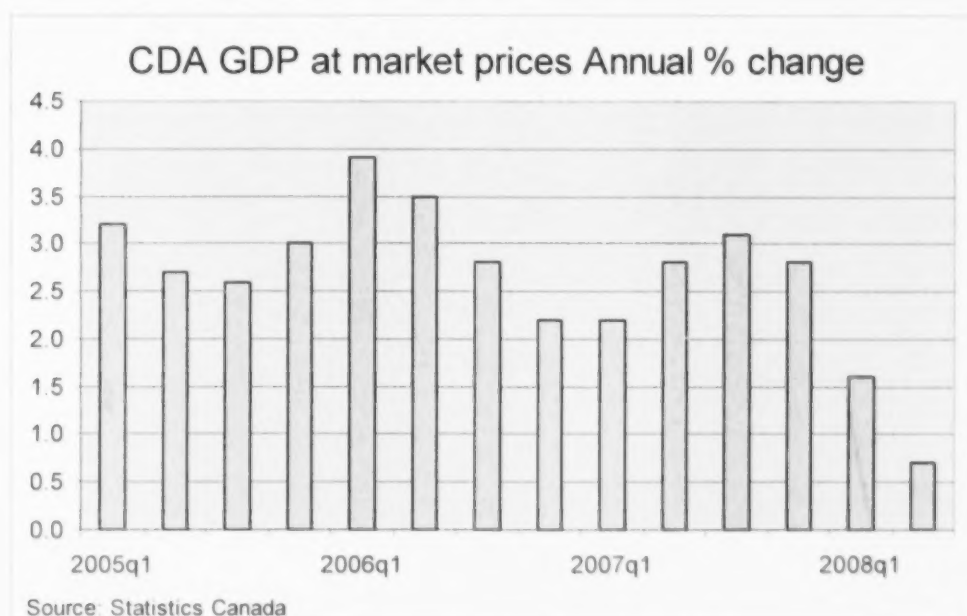
construction. Employment gains over this same timeframe were seen in health services and mining. Total employment in the United States was 145.0 million in October.

Due to the ongoing economic situation in the United States, the Government and the Federal Reserve have implemented both fiscal and monetary policy to stimulate the economy. The Economic Stimulus Act of 2008, provided rebates and payments totaling over \$100 billion to eligible businesses and individuals, and were sent weekly from April to mid-July 2008. On October 3, 2008, the United States passed an Emergency Economic Stabilization Act which contained a \$700 billion economic bailout package aimed at buying up troubled mortgage backed securities in order to increase liquidity in the secondary mortgage market. It also contained approximately \$150 billion in various other spending and tax cuts targeted mostly at businesses and individuals.

Since September 18, 2007 the Federal Open Market Committee (FOMC) has lowered the federal funds rate in each of its rate announcements, for a cumulative reduction of 450 basis points. Currently the target for the federal funds rate rests at 1.0 per cent.

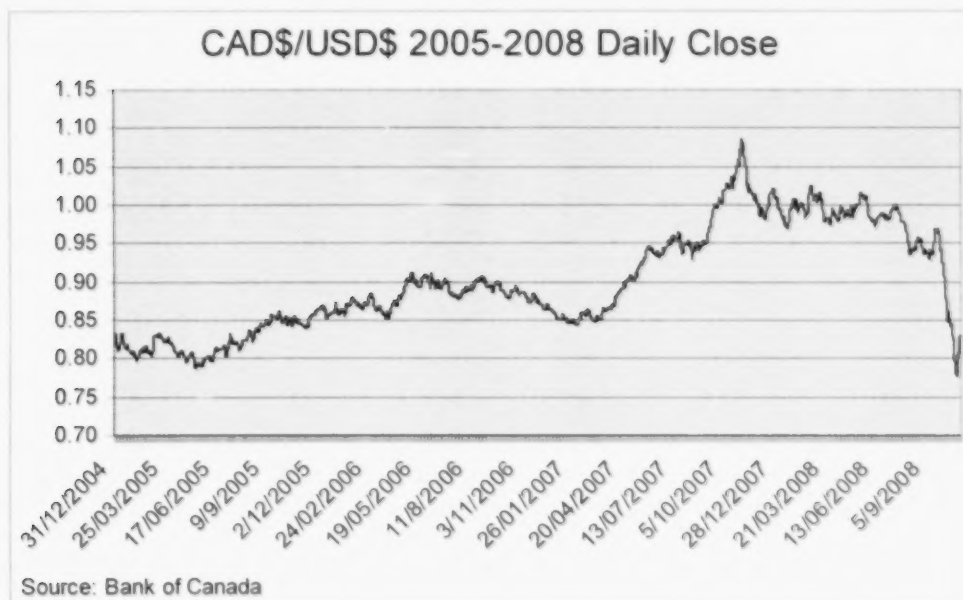
### The Canadian Economy

The Canadian economy has seen only very modest growth in the first two quarters of 2008. Canada's GDP contracted in the first quarter of 0.3 per cent, while it grew at an annualized rate of 0.7 per cent in the second quarter. According to the Bank of Canada, growth in the Canadian economy is expected to grow 0.8 per cent in the third quarter, before contracting 0.4 per cent in the fourth quarter. The Bank of Canada predicts the Canadian Economy to avoid recession and grow at an annualized rate of 0.6 per cent in both 2008 and 2009, before recovering to grow at 3.4 per cent in 2010.



Total employment in Canada totaled 17.22 million workers in October, an increase of 1.3 per cent between October 2007 and October 2008. Unemployment in Canada has averaged 6.2 per cent through the first ten months of 2008, though this does disguise some large job losses that have occurred in concentrated areas, such as manufacturing. Inflation is currently 3.4 per cent, slightly higher than the Bank of Canada's target range, though continued falling oil and shelter prices should moderate inflation expectations in the coming months.

The Canada/US exchange rate has declined from its closing high of \$1.09 on November 6, 2007, to \$0.83 at the end of October. The global financial situation and a decline in commodity prices are both contributing factors. The depreciation of the Canadian dollar is alleviating some of the pressure felt by manufacturing and other export oriented businesses during the dollar's rapid increase.



On October 21, 2008 the bank of Canada cut the overnight rate by 25 basis points after having already cut it 50 basis points on October 8, 2008 so that it presently stands at 2.25 per cent. A weaker economic outlook, the intensification of the global financial crisis, recession fears led by the US economy, and declines in most commodity prices were the reasons given for the second cut. Since December 2007, the Bank of Canada has reduced the overnight rate 225 basis points.

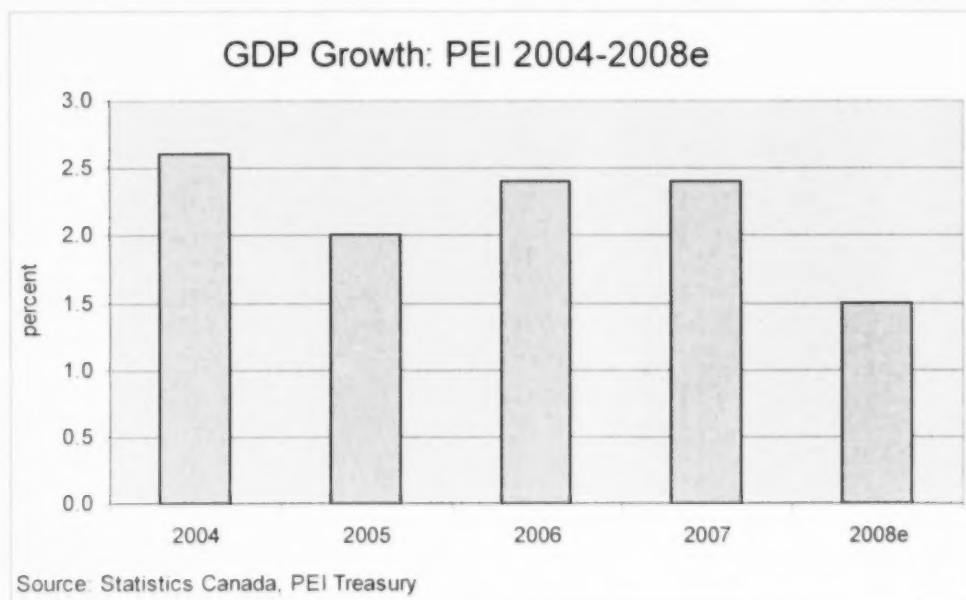
Throughout the end of the third quarter and beginning of the fourth quarter of 2008, Canada has felt some of the pressure emanating from the global financial crisis. However, Canada has not witnessed the same bank failures as other nations, as Canadian banks are relatively better capitalized. The Canadian mortgage market is more effectively

regulated than other countries, with Canadians carrying smaller mortgages overall. Canada has participated in global efforts to help alleviate the tightening of credit and further spread of financial uncertainty. Canada has increased the volume of liquidity to its chartered banks to \$20 billion, while also increasing the range of collateral accepts for financing. The Government of Canada has also decided to purchase \$25 billion in insured mortgages from the banks enabling them to secure more long term financing.

### **In Focus: The PEI Economy Year-to-Date**

#### **GDP growth**

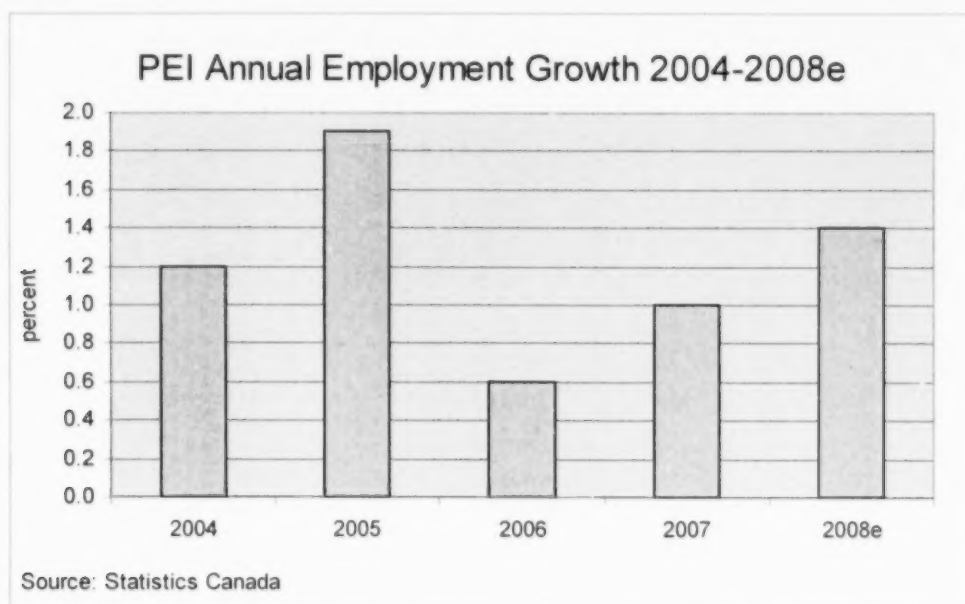
GDP growth on PEI has been steady for the last number of years, advancing 2.4 per cent in both 2006 and 2007. Though more modest growth is expected for 2008, growth here will fare better than in other areas of the country due to the mix of industry we find on the Island. GDP growth on PEI for 2008, as in the rest of Canada, has been revised downward due to the deepening economic crisis in the United States and Europe, and its potential effects on Canada. Due to the volatility of the economy at the present time, and the many upside and downside risks which are present, Provincial Treasury predicts that the PEI economy will expand by 1.5 per cent in 2008.



#### **Labour market**

Employment has averaged 70,470 people through the first ten months of the year, an increase of 1.4 per cent over the same period in 2007. Employment gains have occurred mostly in the services sector, notably in trade, finance, insurance and real estate, professional services, and the public service (education, health and administration). These

gains have offset declines in agriculture and construction. Through the end of the third quarter, and into the fourth quarter, PEI appears to be witnessing some labour market softening. Seasonally adjusted employment in October was down 900 jobs from September, and 300 jobs from October 2007. Losses occurred across all industries, except construction, professional, technical and scientific services, health and social services and public administration. However, PEI is still expected to gain in annual employment growth, and employment growth for 2008 has outperformed that in both 2006 and 2007.



On a year to date basis, the unemployment rate for the province averaged 10.6 per cent.

### **Personal Income**

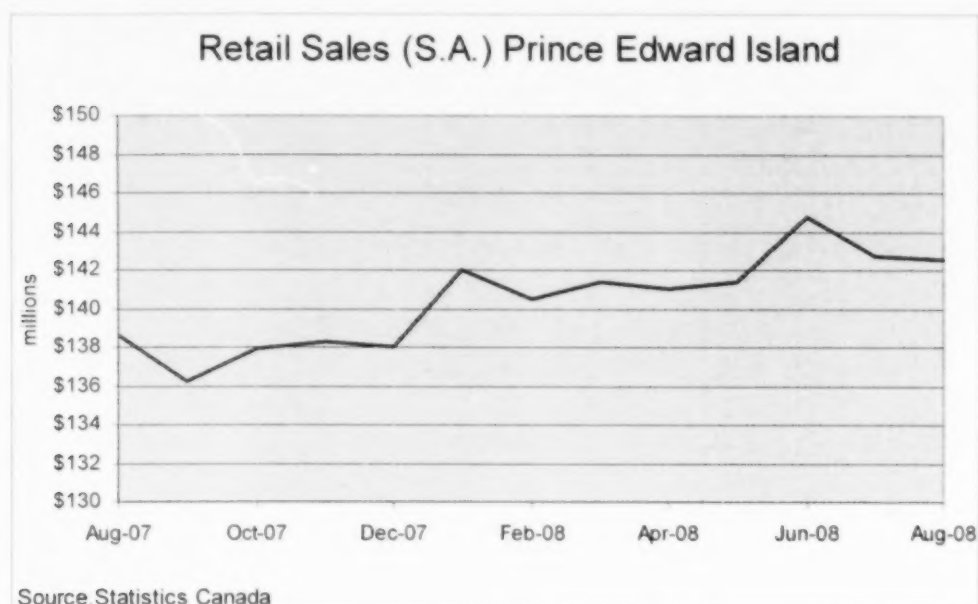
Total labour income during the first half of the year on Prince Edward Island saw an increase of 4.0 per cent over the same period in 2007. Personal income gains can be attributed to rising employment levels, the settling of several government wage contracts, as well as planned increases to the minimum wage.

### **Retail Sales**

Retail sales have remained strong on PEI through the first eight months of 2008, up 5.4 per cent over the same period in 2007 on a seasonally adjusted basis. This is the third year of strong growth in retail sales on the Island, as sales grew by 6.2 per cent in 2006, and 7.7 per cent in 2007 on a seasonally adjusted basis.



New motor vehicle sales have continued to be strong on PEI. The number of units of passenger cars sold has increased by 8.3 per cent on a year to date basis, while the value of those vehicles has increased 7.8 per cent. However, new motor vehicle sales were weaker in August than in previous months. Sales in August decreased 1.4 per cent from July 2008, while the value of those sales decreased 3.7 per cent.



### Tourism

Higher gas prices and a higher Canadian dollar, had a limited impact on the PEI tourism sector through the first eight months of 2008. Air traffic was 15.0 per cent higher than in 2007. This has been partially offset by an 11.0 per cent and 8.0 per cent decrease in bridge and ferry traffic respectively. On a year to date basis, occupancy rates have increased 0.5 per cent as compared to the same period in 2007, though room nights sold have seen a modest decline of 0.4 per cent.

Overall, the tourist season for 2008 witnessed more Islanders consuming local tourism opportunities, with fewer tourists coming to the Island from away. Canadian tourism was down 0.2 per cent. The number of American tourists remained stable, while international tourism was up 14.9 per cent. Improved international connections to the Charlottetown airport and the 100<sup>th</sup> anniversary of Anne of Green Gables are contributing factors for the increase.

### Consumer Prices

On a year-to-date basis, inflation has increased 3.8 per cent. This compares with a national increase of 2.5 per cent. An increase in the price of energy, in particular

gasoline, was the major contributing factor to the increase in the overall inflation level. Other commodities such as cereals and fresh fruit also recorded increases.

The all-items consumer price index (CPI) for Prince Edward Island was up 5.5 per cent for the twelve months between September 2007 and September 2008 when gasoline was \$1.36 per liter. Due to recent declines in the prices of refined petroleum products, inflation is likely to moderate in the fourth quarter. The price of gasoline has dropped from \$1.36 in September to nearly \$0.90 per liter in November, while the price of home heating oil has dropped from \$1.25 a liter in July to under \$0.90 in November.

### **Manufacturing**

Between January and August 2008 manufacturing shipments from PEI decreased 0.3 per cent from the same period in 2007. Food industries, by far the largest manufacturing shipments from the Island, saw an increase of 0.2 per cent over this time period. A 4.6 per cent decline in processed fish products was a limiting factor. Transportation and equipment, and fabricated metal, saw increases of 6.9 per cent and 23.5 per cent on a year to date basis respectively.

### **International Trade**

According to Industry Canada, the value of exported goods originating in PEI for the January to August 2008 period increased 2.4 per cent on a year to date basis. This is largely attributable to a 6.4 per cent increase in the value of seafood industry exports, as well as increases in aerospace exports. Frozen food manufacturing, largely composed of frozen potatoes, recorded declines of 8.2 per cent over this time period. However, the lower value of the Canadian dollar, should help bolster international exports in the coming months.

The aerospace sector on PEI continues to evolve, and after frozen food manufacturing, and seafood preparation and packaging, is the largest export industry on PEI. PEI now boasts nine aerospace companies, and this business is primarily international in scope. Engine, turbine, and power transmission equipment manufacturing saw the dollar value of its exports increase 93.6 per cent during the January to August period compared with the same period last year, while aerospace product and parts manufacturing saw the value of their sales increase 91.0 per cent over the same timeframe.

### **Construction**

Public and Private Investment Intentions for 2008 showed an increase of 1.7 per cent for PEI. The value of building permits on PEI was up 40.8 per cent on a year to date basis, due to the strength of the non-residential construction sector which increased 177.2 per cent over the same period in 2007. Residential permits for this time period decreased 2.3 per cent compared to the same period in 2007. There are several major projects announced or ongoing in the non-residential construction sector, including the refurbishment of several manors, and the Queen Elizabeth hospital in Charlottetown, as



well as the continued turbine erection and infrastructure upgrades necessary for wind power generation. Nationally, there was a contraction in the construction sector over this time period, with large decreases in permit values for both residential and non-residential construction.

According to the Canadian Housing and Mortgage Corporation (CMHC), there were 527 housing starts on PEI in the first nine months of 2008, a decrease of 1.5 per cent over the same period in 2007. The announcement of a proposed condominium development in Stratford, could, will bolster housing starts in the new year.

### Agriculture

The first quarter of 2008 saw farm cash receipts increase by 5.2 per cent over the first quarter of 2007. Both total crop receipts, and potato receipts saw substantial increases, 16.9 per cent and 16.0 per cent respectively over the same period in 2007. Livestock continues to struggle, with cattle receipts down 32.5 per cent, and hog receipts down 33.4 per cent compared to the same period in 2007. Dairy receipts increased 2.6 per cent.

The summer of 2008 saw unseasonably wet weather and several powerful storms on PEI, making harvest conditions difficult, with some crop losses expected. Consequently \$12.4 million in federal and provincial aid is available to farmers to compensate for this situation.

## P.E.I. FARM CASH RECEIPTS

in '000s	Total		Total				Direct	Total
Year:	Crops	Potatoes	Livestock	Cattle	Hogs	Dairy	Payments	Farm Receipts
Year/Quarter								
2007:1	\$53,411	\$47,953	\$32,967	\$5,777	\$5,667	\$16,476	\$10,381	\$96,759
2007:2	\$58,598	\$53,959	\$32,761	\$6,203	\$5,836	\$17,318	\$3,398	\$94,757
2007:3	\$48,150	\$34,624	\$30,719	\$5,438	\$5,113	\$16,956	\$3,216	\$82,085
2007:4	\$54,170	\$43,178	\$30,155	\$5,027	\$4,244	\$17,427	\$6,075	\$90,400
2008:1	\$62,455	\$55,603	\$30,104	\$3,900	\$3,776	\$16,903	\$9,202	\$101,761
2007 YTD	\$53,411	\$47,953	\$32,967	\$5,777	\$5,667	\$16,476	\$10,381	\$96,759
2008 YTD	\$62,455	\$55,603	\$30,104	\$3,900	\$3,776	\$16,903	\$9,202	\$101,761
YTD 08 / YTD 07	16.9%	16.0%	-8.7%	32.5%	33.4%	2.6%	-11.4%	5.2%

Source:  
Statistics  
Canada

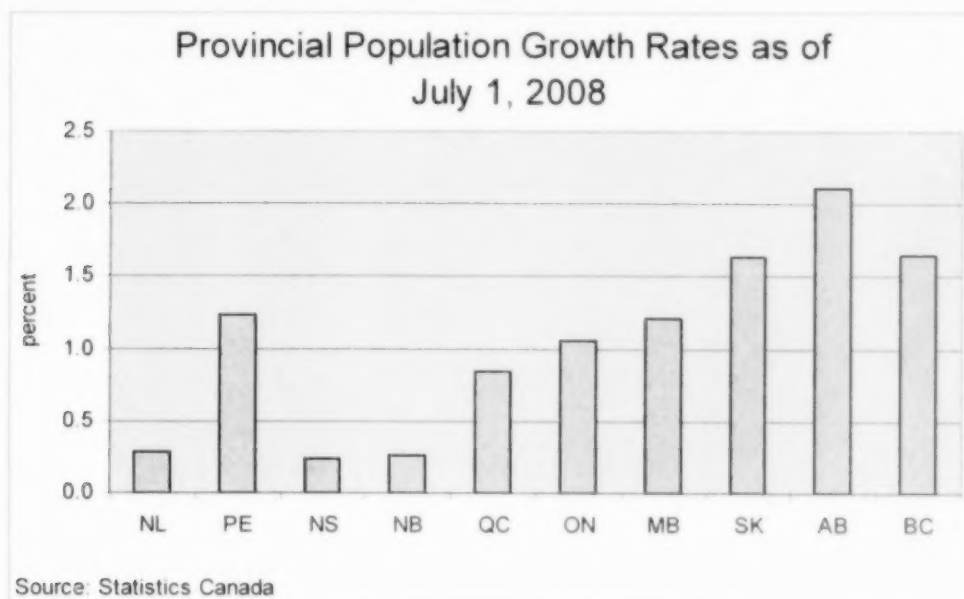
Farm income prospects for potatoes appear to be strong, and the prices of a 10lb bag have increased to \$0.23/lb from between \$0.04-\$0.10/lb in 2007. Processed potato growers were also able to negotiate better contract prices for this season as a result of continued strong prices for potatoes.

## Fishing

According to the *Department of Fisheries, Aquaculture, and Rural Development*, overall lobster landings on PEI in 2008 were up from the previous years, but lobster prices are lower than they were in 2007. In 2008, PEI landed 21.9 million pounds of lobster, an increase of 8.8 per cent over the 2007 landing, and the largest landing in 17 years. However, the high Canadian dollar has reduced producer prices, and the value of the landings in 2008 is estimated at approximately \$100 million. This compares to \$107 million in 2007.

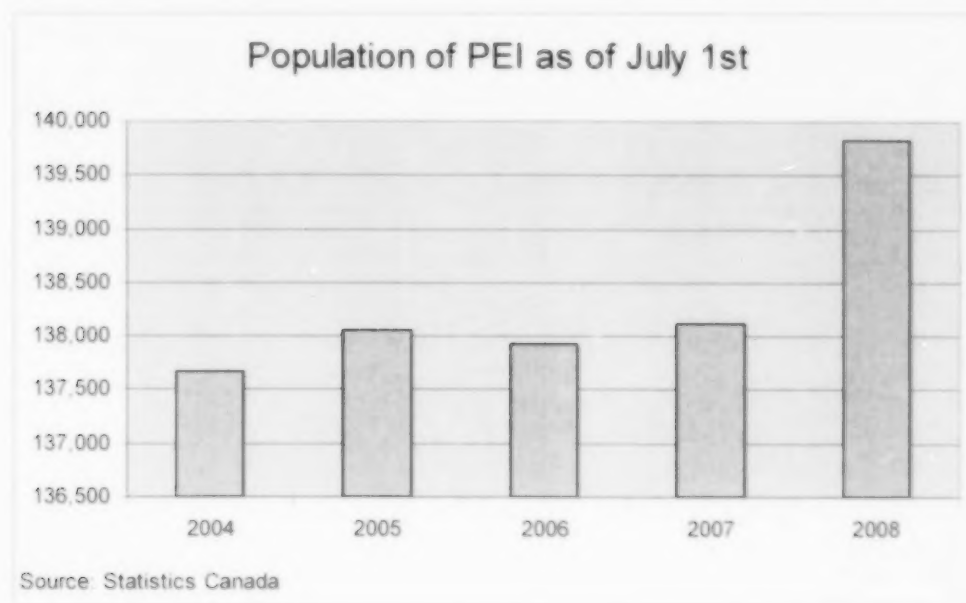
## Population

On September 29, 2008, Statistics Canada published the preliminary provincial population data for July 1, 2008, as well as revisions to the 1971 to 2007 population estimates. As of July 1, 2008, the population of PEI is estimated to be 139,818 persons. This represents an increase of approximately 1,700 persons since July 1, 2007, or an increase of 1.23 per cent. This rate of growth was surpassed only by Saskatchewan, Alberta and British Columbia, as seen in the chart below.



According to Statistics Canada, a strong increase in net international immigration resulted in 1,216 people coming to the Island. PEI gained 42 people from net inter-provincial migration in 2008, reversing the trend of net out-migration in recent years. The sources of PEI's in-migrants were Ontario, Nova Scotia, Alberta, New Brunswick and Quebec, while the main destinations for out-migrants was Alberta, followed by Ontario, Nova Scotia, New Brunswick and British Columbia.

PEI gained 214 people in natural increase (births minus deaths) between July 1, 2007 and June 30, 2008. The province had 1,402 births and 1,206 deaths during this period.



### Provincial Government

In April 2008, the Provincial Government unveiled its Island Prosperity Strategy. This strategy has as its goal the development of the Prince Edward Island economy through four key sectors: IT, renewable energy, bioscience and aerospace.

On October 17, 2008 the Provincial Government unveiled its wind development plan, the first of a three part series on Environment and Energy Policy. This plan lays out the framework for the establishment of the additional 350MW of wind power necessary so for the government to meet its target of 500MW by 2013. PEI has four wind farms, which generate slightly under 100MW of power. West Cape Wind Farm is presently installing 44 additional turbines, which will increase the generating capacity of the Island to close to 150MW by year-end.

In May 2008, the Provincial Government established the Commission on the Future of Agriculture and Agri-food on Prince Edward Island. The purpose of the commission was to establish and articulate a vision for agriculture and agri-food on the Island and recommend steps to implement and achieve that vision. On October 30, 2008, the Commission released its consultation draft entitled "Growing the Island Way". In this report the commission identified several different goals and targets for the PEI agricultural sector revolving around the themes of competitiveness, sustainability and collaboration. Improved financial viability and an increased contribution of the

agriculture and agri-food sector to the PEI economy, as well as a 20 per cent expansion in employment in the agricultural sector are some of the goals and targets of this report.

**Summary**

Growth prospects for Prince Edward Island remain favourable for 2008. The major risk factor to growth is a more severe downturn in the global economic environment than previously anticipated. Growth in the Prince Edward Island economy has been buoyed by strong non-residential construction. This industry should continue to grow going forward as the proposed investment in wind energy is the largest capital project undertaken on PEI since the construction of the Confederation Bridge. Wage growth, growth in retail sales, and good prospects for farm incomes are also benefiting the province. The outlook for manufacturing and exports is improved, especially as the dollar and gas prices continue to moderate.